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U.S. investors might pay the price for U.K. practice

By Fred Williams

DALLAS — Some U.S. pension funds investing overseas might pay more in commissions than they should, and their managers might receive rebates from brokers.

As a result, consultants say, pension funds contemplating the international equity markets should carefully examine equity trading contracts to avoid paying high commissions.

According to consultants and money managers, some British and European money managers trade large blocks of shares for several clients. Then, brokers bill the clients individually at a higher commission rate for smaller blocks as if each client's transaction had been handled separately.

The broker rebates the difference between the large block commission and the small block commissions to the manager.

Although the practice is fading, it apparently still is taking place in the United Kingdom, particularly by British merchant banks.

Some consultants and money managers said they believe the practice is used with U.S. tax-exempt institutional clients as well as with British and other European clients. But British managers contacted denied it ever was applied to such clients.

All those contacted by *Pensions and Investment Age* stressed the rebates are a commonly accepted business practice in the United Kingdom.

Hunter Thompson, president of Lifford Management Co. in Toronto, said "some (U.K. money managers and merchant bankers) do it and some don't.

"They can justify it by saying that 'here we have all this paperwork' ... It's extra for administrative work. I know for a fact that they do it (with U.S. clients)," he said.

Mr. Thompson said merchant banking fees are low as a result, because the merchant banks are able to recoup a portion through trading practices and picking up the spread.

He added the practice soon might be halted as a result of changes being considered by the London Stock Exchange and the British Ministry of Trade, which is about to require the elimination of fixed brokerage fees in favor of negotiated fees.

Recouping the spread between commissions on large blocks and distribution to portfolios and charging a higher commission on smaller blocks is confined mainly to U.K. assets invested in the United Kingdom. However, it is not limited to U.K. funds.

"It is done ... We don't do it," said Gavin J.N. Gemmell, partner in the Edinburgh investment management firm of Baillie, Gifford & Co. "It used to be if we went to do an issue, each client was issued his own contract note. ... If the issue is split and you issue your own contract note to the client, it carries a clearly higher rate (for the smaller block) and it is acceptable (in the United Kingdom)."

Mr. Gemmell said U.K. mer-

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Pensions & Investment Age

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Executives quit firms

By Steve Hemmerick and Rose Darby

CHICAGO — Two pension investment executives of major corporations — David E. Tierney of Standard Oil Co. (Indiana) and Gary B. Helms of Hughes Aircraft Co. — are resigning and leaving the corporate side. Mr. Tierney is leaving his position as administrative manager-investments at Standard of Indiana to start an investment analysis consulting firm.

Mr. Helms, vice president-in-

Continued on page 34

Gary Helms: His "heart is no longer" in the job

Fleet financing flies

By Kimberly Blanton

MONTGOMERY, Ala. — The Retirement Systems of Alabama and General Electric Credit Corp. have closed a deal with Delta Air Lines Inc. to finance part of a fleet of jetliners.

The Alabama pension fund has provided about $100 million to finance Boeing 737 jetliners, and holds the largest share of debt to date in the financing. The system financed its share of the fleet in two pieces: It placed $62 million of the debt late last year, and just turned over another $40 million, said David Bronner, secretary and treasurer of the fund.

Corporate finance

The fund, which is very active in the private placement market, is one of several investors in a $650 million deal to finance 33 of the Boeing aircraft that Delta will use to upgrade its fleet. Investment bankers, Goldman, Sachs & Co. and First Boston Corp., are co-managing the deal.

General Electric Credit Corp., which will lease some of the jetliners to Delta, has provided about half the equity for the deal, confirmed Kenneth Rusterholz, vice president and manager of transportation finance for GE Credit. General Electric is the largest equity holder.

The remaining investors are pension funds, insurance companies and commercial banks. Delta could not be reached for comment.

In adding the 33 aircraft, Delta is following a history of "aggressive" maintenance and upgrading of its fleet, said Tim Pettee, an analyst with Rotan Mosle Inc., Houston.

"I would view the 737-200s as bridge aircraft" between the older 727-200s it is now selling to other airlines and a 150-seat aircraft it hopes to buy later in the decade, Mr. Pettee said. Aircraft manufacturers have not yet developed a 150-seat aircraft, but Delta has made known its interest in buying such a plane.

Delta originally agreed to take delivery of the jets from Boeing last April. But after one year, they still are being delivered and the financ-

Continued on page 36

California plans protest Texaco deal

Funds consider suit

By Steve Hemmerick and Fred Williams

SACRAMENTO, Calif. — California's two largest public pension funds are considering suing Texaco Inc. over a $1.3 billion deal Texaco management made with the Bass family of Texas.

Officials of the $22 billion California Public Employees Retirement System and the $12 billion California State Teachers' Retirement System believe the funds should be paid the same premium for their Texaco shares that the Bass family was paid. The suit was suggested by two members of both systems, California Treasurer Jesse Unruh and Controller Ken Cory.

Texaco paid the Basses a 12% premium for more than 25.6 million shares of Texaco common, which was 9.9% of the total Texaco stock outstanding.

The pension funds reportedly own Texaco common valued at more than $100 million.

Texaco common had been bid up in price to 48¾ because investors believed the Bass family might engineer a takeover of Texaco. However, after Texaco purchased the Bass shares, at $50 a share, the stock dropped in price with the apparent takeover threat gone.

Ben Tierney, a spokesman for Texaco, said the company had done "nothing illegal" under Delaware case law. Texaco is a Delaware corporation. Under state law, Mr. Tierney said, "a premium can be made for large purchases of stock," and an "open market purchase of securities is not illegal."

However, Mr. Tierney added it is "probably within their rights to sue." He said other investors, including other institutions, had made calls to Texaco about the purchase of the Bass family shares.

Sid McCausland, executive director of the public employees' system, said Securities and Exchange Commission attorneys have been contacted about the Texaco/Bass deal.

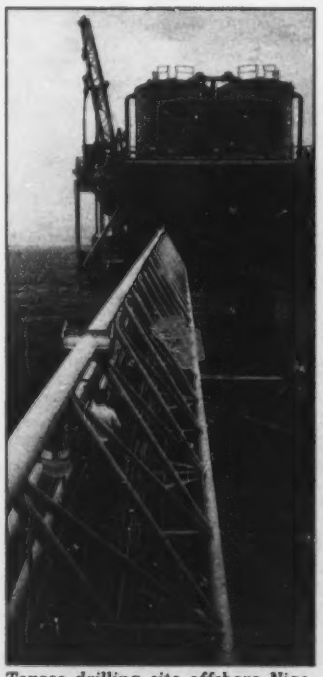
But Cecelia Bligh, an attorney in the SEC chief counsel's office, said she is unaware of the proposed action.

Mr. McCausland said Mr. Unruh and Mr. Cory believe the premium over the market price paid to the Bass family "should be available to all shareholders."

But, Mr. McCausland said, "there are a lot of questions of whether we would prevail in a suit."

Larry Margolis, executive secretary of the Pooled Money Investment Board of the state treasurer's office, said that once Mr. Unruh "saw the deal the Bass brothers got,

Continued on page 37



Texaco drilling site offshore Nigeria: Two members of both systems suggested the suit

Late news

Florida adds for equity

TALLAHASSEE, Fla. — The $6.5 billion Florida State Board added its first non-index equity managers, said E.J. Yelton, executive director. Lazard Freres Asset Management and Lehman Management in New York, and INVESCO Capital Management, Atlanta, will run $100 million each.

Regulation proposed

ATLANTA — The Georgia banking commissioner will issue a

Continued on page 2

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Issuers' market in doldrums
Ratings services report drop in downgradings
Oklahoma battles revenue shortfall
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Public finance supplement

This issue of *Pensions & Investment Age* contains a special supplement on public finance. The supplement, *City & State*, is being distributed at the Municipal Finance Officers Association's annual conference in San Antonio this week.

The MFOA conference is expected to draw about 2,700 public finance officials from across the country.

Readers will find the supplement following *page 20* in this edition. Additional *P&I Age* news and features continue after the supplement.

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AMC gives fund stock for 2nd year

By Kimberly Blanton

SOUTHFIELD, Mich. — For the second consecutive year, American Motors Corp. contributed its own common stock to meet the annual payment to its pension fund.

Again, the shares were given to AMC's investment managers, who eventually will sell them from their client's investment portfolios.

AMC's latest 3 million-share contribution was valued at $4.985 per share, totaling $14.95 million. It meets part of the automaker's required $50 million 1983 funding for seven union and salaried employee pension funds. The rest will be paid with cash.

The value assigned the shares in the fund matches the proceeds to American Motors of an accompanying 12 million-share public offering of AMC common stock March 28.

The stock sold in the market for $5.375 per share. The difference between the market price and what the company and the pension fund received is a 48-cents-per-share underwriting fee. Lazard Freres & Co., Lehman Brothers Kuhn Loeb Inc. and Merrill Lynch Capital Markets managed the offering.

AMC joins other companies that have made a second contribution of stock or bonds to their pension funds in lieu of cash, including Sun Electric Corp., Martin Marietta Corp. and The LTV Corp.

The practice of contributing company securities instead of cash became widespread at the height of recession, but some finance executives have predicted stock contributions would become a permanent item on the corporate finance menu.

For AMC, however, the reason for doing so this year is the same as last year: to save cash.

Joseph Fromm, assistant treasurer, said the company needs the cash it would have put into the fund to use elsewhere. "In order to compete in the business requires new products, and new products require cash," Mr. Fromm said.

For AMC's strategy, he referred to the prospectus on the public offering, which outlines a plan to design and introduce front-wheel-drive cars and a new four-wheel-drive Jeep.

Although the contribution is part of a large financing strategy, Mr. Fromm stressed the pension fund's gain from it last year, and he expects it to repeat that.

"It (AMC stock) was the best investment the managers made last year," he said. The shares rose an average 64% between the time AMC gave them to the investment managers and the managers turned around and sold them, according to Mr. Fromm.

Sometimes, companies sell these shares through an underwriter, while others, like AMC, let the investment managers sell them.

One of AMC's investment managers, BA Investment Management Corp., had no qualms with the practice: "Last time, it was such a good deal for everyone concerned," said Douglas Heidohrn, senior vice president.

He said BAIMCO calculated its investment return last year for the AMC account with and without the shares, and said the holding in AMC stock "pulled up all the managers' (investment) performance."

When AMC first suggested it would contribute stock again, Mr. Heidohrn said his company's attitude was: "I just hope the same thing happens again."

Three other investment managers were given AMC stock proportional to the assets they manage for the pension fund: Chase Investment Management Corp., Morgan Guaranty Trust Co. and Fayez Sarofim & Co. Together, they manage $250 million of the $300 million plan. Mr. Fromm did not provide a breakdown. AMC's first contribution of 3.3 million shares, made at the same time last year, was valued at $5.425 per share.

Joseph Fromm

Sixty percent of the shares were sold within one month and 98% were sold by July, Mr. Fromm said. There is "no reason" it won't turn out to be a good investment again this year, he added. ■

Termination report a 'cause celebre'

Agency assails DOL study

By Joel Chernoff

WASHINGTON — The Pension Benefit Guaranty Corp. has sharply attacked a Department of Labor study showing participants lose 45 cents on every dollar when a defined benefit pension plan is terminated.

The department study, still in draft form, has become a "cause celebre," said one government official.

The paper could affect how the administration approaches the issue of terminations of fully funded plans, although its significance has been played down by some government officials.

The dispute focuses on whether participants have a right to expect future accrual of benefits. If they do, the Labor Department study says, their loss of expected benefits is substantial.

In addition, the Treasury Department loses 10% to 20% in revenues because of the tax-preferred status of pension plans, the study estimated.

But the PBGC criticized the study for not being practical and for inaccurately deriving its figures.

"The DOL study is concerned with questions that are purely speculative and hypothetical," Thomas Veal, the PBGC's director of corporate planning and program development, said in a telephone interview.

A memorandum by Mr. Veal said, "The paper does not adequately explain why 'real expected benefits' . . . should be a focus of pension policy."

Moreover, the PBGC memo asserted the study's method of calculation "is internally inconsistent and grossly overstates the so-called 'loss.' "

An "aggregate 45% loss" is "impossible," Mr. Veal said.

The study appears to leave the Reagan administration in an awkward position on how to address the issue of pension plan terminations.

"We do not fully understand why voluntary terminations occur, and, therefore, it is difficult to predict the frequency of terminations

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California officials air gripes

By Steve Hemmerick

SACRAMENTO, Calif. - California Gov. George Deukmejian's administration has been accused of stalling efforts to set up internal management of the state's two largest pension funds.

Rick Cohen, acting chief executive officer of the $12 billion California State Teachers' Retirement System, told members of a joint legislative committee on pension investments that "this administration" has stalled internal staffing repeatedly.

This was done, he said, by administrative departments demanding "full reviews" for items like chairs on which members of the proposed permanent internal investment staff would sit.

Sid McCausland, executive officer of the California Public Employees Retirement System, said the fund's acting chief investment officer — the third in 16 months — manages $22 billion, yet is a civil servant earning $44,000 a year.

Other hearing testimony revealed that money spent on external management of the teachers' fund is projected to increase to $14.5 million next fiscal year from $3.8 million this fiscal year. Still, Mr. Cohen told the committee the administration was quibbling over "bits of money" when it came to internal staffing.

External management began last July for the teachers' fund when it

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Late news

Continued from page 1

proposal shortly to regulate out-of-state banks operating lockboxes.

The primary targets of the new rules are Wachovia Bank & Trust Co., Winston-Salem, N.C.; Mellon Bank, Pittsburgh; and Chase Manhattan Bank, New York. All three are operating lockbox collection points out of Georgia, enabling them to improve check collection times for their corporate clients on local items.

Under the commissioner's proposal, out-of-state banks can continue their in-state operations, but the proceeds of their collections will have to be deposited at local banks in the names of their corporate clients, said Robert Moler, deputy commissioner of banking.

All three banks had proposed clearing their collections through accounts set up at local banks but under their own bank names.

None of the banks plan to discontinue operating in Georgia as a result of the proposal, he added.

Fund official to retire

DENVER — Joseph Natale, executive secretary, has announced he will retire from the $4 billion Colorado Public Employees Retirement Association February 1985, after 21 years with the association.

There will be a national search for his replacement.

Pines to join TPF&C

CHICAGO — After 12 years with Meidinger Asset Planning Services Inc., Gary Pines has left to join Towers Perrin Forster & Crosby.

Fund exemption noted

WASHINGTON — Pension funds effectively are exempt from the restrictions placed on the insurance coverage of brokered deposits, according to Joe DiNuzzo, a senior attorney with the Federal Deposit Insurance Corp.

The FDIC and the Federal Home Loan Bank Board approved a regulation limiting insurance coverage to $100,000 on all deposits made by a broker to an institution.

But a pension fund that buys certificates of deposit through a trustee, plan administrator or investment manager is exempt as long as the instruments were not purchased through a deposit broker, according to Mr. DiNuzzo.

MOM lands first client

WESTPORT, Conn. — The consulting firm, Evaluation Associates, has landed a first bank client for its management of the managers program, dubbed MOM.

Huntington Bancshares Inc. of Ohio, holding company for the Huntington National Banks of Columbus and Cleveland, was named as the first bank signatory for the new program.

Consulting firm starts

NEW YORK — Paul Berg, president of Berg Fiduciary Consultants, and Barry Effron, president of Effron Enterprises Inc., have formed Plan Sponsor Network Inc. to provide consulting and information services to pension executives by microcomputer.

Investment arm split

MINNEAPOLIS — The IDS Advisory Group has split its investment management arm into two separate units: IDS Equity Advisors and IDS Fixed-Income Advisors.

Cowles hires three

MINNEAPOLIS — Cowles Media Co. hired Centerre Trust Co. of St. Louis, Vilas Fischer Associates, New York, and Pacific Financial Research, Beverly Hills, Calif., to be balanced managers for a portion of the firm's $60 million in employee benefit assets, according to John Coles, assistant treasurer.

Incentive fee pilot

MINNEAPOLIS — The Minneapolis Employees Retirement Fund is working out an incentive fee for a $100 million options overwrite program that Bankers Trust Co. will manage, said John Chenoweth, executive director and chief executive officer. In what will be a pilot program for Bankers Trust, its fee for managing the investment will rise and fall with its returns.

Marketing agreement

BOSTON — The Financial Trust Corp. has reached an agreement with Wright Investors' Service, Bridgeport, Conn., to market Wright's investment management services to small companies and individuals. The account minimum is $50,000.

According to Milton A. Corey, executive vice president, the arrangement gives investors diversification by allowing access to five different investment pools — equity, long-term corporate bonds short-term corporate bond, taxable government bond and money market.

Baltimore tops list

NEW YORK — A city of Baltimore Employees' Retirement System equity portfolio managed by Pioneering Management Corp. of Boston had the best investment return in 1983 among a universe of 118 public fund portfolios.

The fund had a return of 28.4% for the 12 months ended Dec. 31, 1983, according to a survey by Prudential-Bache Investment Management Services.

Another Baltimore portfolio managed by Pioneering, for the Fire & Police Retirement System, was the second best in the universe, with a return of 27.8%.

The best investment return among the funds in the universe for three years was the city of Dallas' $28.5 million portfolio managed by Alliance Capital Management's Dallas office, with a compound annual return of 23.9%.

A city of Spokane portfolio managed by a local firm, Wakely & Robertson, was second in the universe for three years, with a return of 18.7%. The city of Baltimore employees' system portfolio managed by Pioneering was third, with a compound annual return of 18.4%.

David G. Tildesley, portfolio manager for Pioneering, said the two Baltimore accounts are managed almost symmetrically in the same contrarian style.

"We tend not to play issues others are chasing," such as high technologies, he said. "We go after undervalued types of stocks," such as cyclicals and energy sectors.

The $28.5 million account run for the Dallas Employees' Retirement Fund by the local office of Alliance, a growth manager, was by far the top account out of the 85 tabulated during the past three years.

Raymond Fleming, administrator for the system, said he was not surprised that one of its eight managers, with the second largest amount of Dallas-owned equities in hand, would be rated so highly.

"Our investment philosophy and our investment advisers were always looking for performance," Mr. Fleming said. "That is just an affirmation of our investment approach and what we're doing. I'd be more surprised if we weren't doing this good. While the rest of the managers aren't way up there, they are doing well in their sectors."

Charles P. Lamb, Alliance's portfolio manager for the account, said, "Part of the credit for all this performance goes to the city. They have hired a very good consultant who is very conscious of diversified management style (Eppler, Guerin and Turner, a Dallas firm). And they have a very progressive board."

Alliance is one of two growth managers for Dallas, and has been working for the city fund during just about the three-year period. Mr. Fleming said he believes the Dallas Alliance office benefited from investing more heavily than usual in regional stocks.

Mr. Lamb agreed, after a fashion. He said the performance on the Dallas account is comparable to municipal accounts run out of the five other Alliance offices, and that Alliance portfolio managers more or less pick the same stocks from the firm's recommended list.

But, "in the Dallas office, we probably have a heavier weighting of Southwestern-based businesses because we have had an opportunity to be familiar with their names and the management of the companies," Mr. Lamb said.

Trinity Industries and the **Tyler Co.** are two equities he has been holding in greater quantity than the average Alliance manager, because the management of these local firms is looked upon favorably. **Ducommon** and **Kasler Corp.** are other "regional" firms that benefit Alliance clients.

The Spokane fund managed by Wakeley & Robertson was among the top portfolios for the year, with a return of 25.1%, as well as being the second best for three years.

William W. Bosch, director of the Spokane system, indicated familiarity with the local firm in the close-knit business community contributed to the selection of Wakeley & Roberston.

Mr. Robertson handled the Spokane account when he worked for the system's other equity manager, Composite Research and Management, also of Spokane. His spun-off company was hired when another manager was replaced.

"He was a very technical person," said Mr. Bosch. "He plotted each company, tracked them on a daily basis very tediously. The board was very impressed with this."

"They primarily use a fundamental orientation," said James E. Bennett, assistant director of the Spokane fund. "They're market timers to a degree and move to very large cash positions from time to time. They try to not time minor swings, but they avoid the major crashes.

"In the last couple to three years, they were pretty successful on the so-called disinflatory stocks," Mr. Bennett continued. "They've been going with institutional names."

He rattled off the names of **American Hospital Supply Corp., Halliburton Co., American Express Co., Digital Equipment Corp., General Electric Co., Hewlett-Packard Co., Gannett Co., Intel Corp., International Business Machines Corp., Johnson & Johnson, PepsiCo, SmithKline Corp., Travelers Insurance, Union Pacific Corp.** and **Waste Management Inc.**

He pointed out that Composite Research, which is somewhat larger than Wakeley, has had comparatively good performance results also (23.7% for 1983, 16.7% for the three-year term).

Composite tends not to time stocks, but to hold them.

"A small manager can compete very well with a large manager, primarily in the flexibility they have," Mr. Bennett said. "Plus, we're relatively small. It's not like trying to move the California fund out of the stock market. They're massive."

Paul Mann, one of the two partner/managers in Wakeley & Robertson, said the firm's willingness to go strongly into cash helped them be up 7% in 1981, when the average manager was down. "We place an emphasis on preservation of capital rather than in growth," he said. "Sometimes, on the big up years, we're slow to get back in, but maybe that helps us."

The firm uses the Pacific Northwest as its marketing base and is "a top-down fundamentalist, but a little bit eclectic, too," he said. ■

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Corrections

• A chart in the April 2 issue incorrectly listed **CIGNA Corp.**'s commitment to international investments. CIGNA had $35 million invested internationally in 1983, compared with $26 million in 1982.

• **Provident National Assurance Co.**, not its parent company, will handle the guaranteed investment contracts for Burroughs Corp.'s new 401(k) plan reported in the March 19 issue.

• South Carolina National Bank is trustee and custodian of **Seibels, Bruce & Co.'s** profit-sharing trust. Alliance Capital Management's New York office is co-manager for the company's $30 million fund.

Opinion

Are fiduciaries ignoring their duty?

PENSION FUND fiduciaries and trustees might be ignoring their fiduciary duties in hostile takeover battles where the board of directors of the target company makes a special deal to buy off the unwelcome suitor.

None of them has taken any action to protest the special deals, although these deals might have been detrimental to the interests of their clients.

For example, when Warner Communications agreed to buy back the Warner shares held by Rupert Murdoch at a price far above the market price of the stock, should the institutional shareholders not have intervened?

Should they not have demanded the same deal for their clients?

The questions are prompted by the rash of corporate takeovers and takeover attempts in the past months. In a number of cases, the boards of directors have bought off the unwelcome suitors by paying substantial premiums to repurchase company stock.

In effect, the directors of the target companies have used corporate assets, assets that belong to all shareholders, to pay a special premium to one shareholder or a small group of shareholders.

In virtually every case, the non-favored shareholders have gone along with the deal without a whimper.

Surely, institutional shareholders should have challenged this use of corporate assets. Surely, they should have demanded that the directors show their actions served a broader corporate purpose than simply preserving the current management. Surely, they should have filed suit to force the directors' actions to be put to a shareholder vote.

In some cases, the general shareholders would have been better off if the suitor had gone ahead with the takeover attempt, bidding up the stock prices. In some cases too, the shareholders would have been better off if new management had won control of the company.

By buying off the suitors, the boards of directors have prevented the shareholders from voting with their shares. If the tender offers had been allowed to proceed, the shareholders would have been able to decide for themselves if the price offered for their shares was attractive enough for them to go against management and accept the deal.

If all of the shareholders remain neutral in such situations, where one shareholder is being favored at the possible detriment to all other shareholders, then an element of ownership is eliminated.

Pension fund fiduciaries and other institutional shareowners as trustees should not allow such actions to be taken without protest.

If the trustees won't take action on their own volition, perhaps someone in government should provide a little stimulus.

Decision leaves retirees out in the cold

THE REAGAN administration's decision to allow employers to use two methods of terminating pension plans to recapture assets ignores the impact of the methods on a key group of people — the retired beneficiaries.

The decision, reported in the April 2 issue of *Pensions & Investment Age*, makes no provision for protecting retired employees. It also ignores that current employees can be hurt in the termination/re-establishment method.

Under most pension plans, retired employees receive no inflation protection. However, many employers periodically grant pension increases to retired beneficiaries to at least partly offset the impact of inflation. If this is done out of pension assets, it may be done on a tax-exempt basis. If out of corporate assets, it must come from after-tax earnings.

When plans are terminated, employers buy annuities to provide for retired employees' benefits. This is usually where the surplus arises, because the implied interest rates on annuities are far higher than those assumed in the pension plan.

Once annuities have been bought for the retired employees, it is very difficult for corporations to provide any periodic adjustment for inflation. Because the retirees no longer have any connection with the plan, benefit improvements cannot come from plan assets. Few companies are likely to take after-tax earnings to buy additional annuities for retired employees.

Therefore, it is unlikely retired employees will get any inflation adjustments from their companies once the plan under which they were covered has been terminated.

The only way for these employees to receive any inflation protection is for it to be provided during the termination process by giving them a share in any surplus assets.

Editor's desk

THE conversion of the investment management operations of bank trust departments into separate subsidiaries will not solve their problems in retaining investment talent or market share, contends H. Kent Atkins, senior vice president at Bankers Trust Co.

Changing the name of the organization and paying employees more competitive salaries are not sufficient, he said. In his view, morale has been as much a problem as money.

Money has been a problem: bank salaries have trailed those of investment counseling firms. But a major reason banks lose some of their best players is that the investment staff wants to believe they are playing on the winning team, that they are working for an exciting organization that is going places. The excitement seems to be with the boutiques.

"Money is always an issue, but it is not *the* issue," said Mr. Atkins. "The culture and the environment have to be right or you are going to go somewhere else."

He pointed to the departures of two senior portfolio managers from Forstmann-Leff Associates: "Why did those guys leave? Not for money. They were probably making as much money as a person could want."

It might have been to do their own thing, but most likely it was because of some change in the environment, Mr. Atkins said.

Just because a bank spins off an investment management subsidiary and can pay its money managers more than it pays loan officers, the problem is not solved, according to Mr. Atkins. "If the place is not an exciting place to work, they will not stay," he said.

For this reason, Mr. Atkins has not followed the example of Chemical Bank, Manufacturers Hanover Trust, InterFirst Bank in Dallas and Northern Trust, in breaking out the investment management operation into a subsidiary.

Instead, he has separated the investment management operation from the other trust operations and has concentrated on making it an exciting place to work and on making its salaries competitive.

In the past two years, the investment management team has been pared from about 100 members to 70. Each of the dozen portfolio managers has some research responsibilities, while the analysts have been relieved of providing research to other banks.

"Previously the analysts were trying to supply research to various kinds of clients — other banks, tax-exempt clients and personal clients," said Mr. Atkins.

He has tried to reduce the bureaucracy in the process by giving the portfolio managers more responsibility and more freedom, and engaging them more directly in the investment policy decisions.

He even involves them in the annual business review. "If you go through the business review of your company and you see revenues, profits and your own paycheck going up, it's a pretty exciting place to work," he said.

Everyone involved in the department is now in an incentive compensation scheme. Portfolio managers' incentive compensation will be based on both long- and short-term criteria. Security analysts will be judged on how recommended stocks have performed and on how well they have supplied the information needs of the portfolio managers.

"We have tried to gear the total compensation package to be just inside the first quartile of the total universe of money managers," said Mr. Atkins.

Of course, Bankers Trust must prove it can produce consistently good returns.

Mr. Atkins also must make Bankers Trust an exciting enough place to work to keep the investment professionals from wanting to start their own firms.

So far, the reviews are mixed.

Last year, the composite return of all its equity funds was 22.9% compared with 22.3% for the Standard & Poor's 500 stock index. While its common equity pooled fund was up only 17.6%, its index fund outperformed the index coming in at 23.7%, and its special equity fund was up 20.6%.

For five years and 10 years, the special equity fund is in the top 20% of the Pensions & Investments' Performance Evaluation Report universe, with compound annual returns of 31.4% and 18.9% respectively. And just last month Seth Lynn and Robert Windsor, two key vice presidents running Bankers' index funds and other passive products, left to start their own firm.

Certainly, Bankers has convinced sponsors it can run an index fund. Last year, the bulk of the $4 billion in new business added by the bank was in indexed assets.

But Mr. Atkins will have the same problem as the bank investment counseling subsidiaries in convincing sponsors that their investment management operations have generated new excitement.

"If it looks like a bank, sounds like a bank, smells like a bank, it is a bank," said the executive of a major East Coast fund. *M.J.C.* ■

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